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AT&T Form 10-Q - Part I

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

- (a) **ACCOUNTING POLICIES** - The consolidated financial statements have been prepared by American Telephone and Telegraph Company ("AT&T" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, include all adjustments, consisting of only normal recurring adjustments necessary for a fair statement of the consolidated results of operations, financial position and cash flows for each period presented. The consolidated financial statements include the accounts of foreign entities based on their fiscal year, which ends either November 30 or December 31. The consolidated results for interim periods are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with AT&T's 1992 Annual Report to Shareowners and Form 10-K for the year ended December 31, 1992.

Certain prior year amounts have been reclassified to conform with the current presentation.

- (b) **CHANGES IN ACCOUNTING PRINCIPLES**

**CHANGE IN ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS** - Effective January 1, 1993, AT&T adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires companies to accrue for estimated future postretirement benefit expenses during the years employees are working and earning benefits for retirement. Previously, AT&T expensed retiree health care benefits as claims were incurred and life insurance benefits as plan assets were funded.

Under the new standard, AT&T has an accumulated postretirement benefit obligation related to past service from current retirees and active employees. A portion of that liability was provided for by funding group life insurance benefits and by funding trusts for health care benefits prior to 1993.

In addition, AT&T reimburses the divested Bell System Regional Holding Companies for a portion of their costs to provide health care benefits, increases in pensions, and other postretirement benefits to pre-divestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992, these reimbursements were expensed as incurred. AT&T recognized the liability for these postretirement benefit expenses in connection with the adoption of SFAS No. 106.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

AT&T elected to record a one-time charge of \$11,317 to record the unfunded portion of the accumulated postretirement benefit obligation under SFAS No. 106 and the postretirement liability related to the divested Bell System Regional Holding Companies as of January 1, 1993. The charge reflects the recognition of accumulated postretirement benefit obligations of \$12,986, net of \$1,669 of plan assets and amounts previously recorded. An after-tax charge of \$7,023 (\$5.21 per share), including \$1,375 for pre-divestiture retirees, was recorded as the cumulative effect of an accounting change in the first quarter of 1993.

Apart from this charge, the new method of accounting for postretirement benefit expenses had no material effect on net income for the first quarter of 1993. This accounting change does not affect cash flows. See also Note (f).

CHANGE IN ACCOUNTING FOR INCOME TAXES - Also effective January 1, 1993, AT&T adopted SFAS No. 109, "Accounting for Income Taxes." Among other provisions, this standard requires deferred tax balances to be determined using the enacted income tax rate for the years in which taxes will be paid or refunds received. Prior to 1993, AT&T's deferred tax accounts reflected the statutory rates that were in effect when the deferrals were initiated.

The adoption of SFAS No. 109 resulted in a net income benefit of \$383, or \$.28 per share. This benefit was recorded as the cumulative effect of an accounting change in the first quarter of 1993.

Apart from this benefit, the new method of accounting for income taxes had no material effect on net income for the three months ended March 31, 1993 and is not expected to have a material effect on net income in future periods unless statutory tax rates change. Financial statements for prior years were not restated. This accounting change has no effect on cash flows. See also Note (g).

- (c) INVENTORIES - Inventories at March 31, 1993 and December 31, 1992 were as follows:

	March 31, 1993	December 31, 1992
Completed goods .....	\$1,887	\$1,689
Work-in-process and raw materials .....	1,142	970
Total inventories .....	\$3,029	\$2,659

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)  
(Dollars in Millions Except Per Share Amounts)  
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The proposed transactions are still being negotiated and there is no assurance that a final agreement will be reached. Any final agreement is subject to approval by AT&T's Board of Directors, McCaw's Board of Directors and applicable government agencies. Financing for the proposed transactions may include newly issued shares of AT&T common stock as well as debt.

In February 1993, in a separate transaction from the proposed strategic alliance described above, AT&T acquired an approximate 7% interest in McCaw when McCaw exercised an option, granted by AT&T, to sell AT&T approximately 14.5 million newly issued shares of McCaw's Class A Common Stock at \$27.625 per share, for a total cost of \$400. As a result of this transaction, it is proposed that the number of shares and the price per share of the shares to be purchased from McCaw under the proposed transaction, described above, would be adjusted so that the total shares purchased will be approximately 47.6 million shares at a cost of \$2,000 plus interest from December 31, 1992.

In January 1993, a petition was filed with the Federal Communications Commission ("FCC") by three regional telephone companies requesting an investigation into AT&T's investment in McCaw. Those companies claim that an alliance between AT&T and McCaw would create a dominant, nationwide, vertically-integrated telecommunications services company. They suggest that the FCC should remove regulatory restrictions that inhibit their ability to compete with AT&T and McCaw or, if such restrictions cannot be lifted, that the FCC should impose those same restrictions on AT&T and McCaw. The matter is currently pending.

- (f) POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - AT&T's benefit plans for retirees include health care benefits, life insurance coverage and discounts on long distance telephone services for the majority of its retirees. Although these benefit plans are essentially noncontributory, AT&T placed upper limits on its contributions toward health care coverage for some retirees. These caps were established in 1989 and will go into effect on July 1, 1995 for all future retirees and all employees who retire on or after March 1, 1990. These caps do not limit the payments made in the event of a claim; rather, they will result in retirees sharing in the cost of providing health care coverage.

Postretirement benefit plan contributions are principally determined using the modified attained age normal method for health care benefits and the aggregate cost method for group life insurance benefits. AT&T has funded its group life insurance benefits for many years and began funding trusts for health care benefits in 1991.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)  
(Dollars in Millions Except Per Share Amounts)  
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The components of the net postretirement benefit plan cost for AT&T's employees and retirees for the three months ended March 31, 1993 were as follows:

Service cost -- benefits earned during the period	\$ 24
Interest cost on accumulated postretirement benefit obligation	217
Expected return on plan assets	(45)
Amortization of unrecognized prior service cost	7
Net postretirement benefit cost	\$203

The following table shows the funded status of AT&T's postretirement benefit plans reconciled with the amount recognized in the consolidated balance sheet as of January 1, 1993:

Accumulated postretirement benefit obligation:	
Retirees	\$ 8,101
Fully eligible active plan participants	1,025
Other active plan participants	1,703
Accumulated postretirement benefit obligation	10,829
Plan assets at market value, primarily listed stocks, corporate and governmental debt, cash and cash equivalents and life insurance contracts	2,294
Unfunded postretirement benefit obligation	8,535
Unrecognized prior service cost	228
Accrued postretirement benefit obligation	\$8,367

The AT&T plans providing postretirement health care benefits and discounts on long distance services were underfunded as of January 1, 1993. The accumulated postretirement benefit obligation and plan assets for these plans were \$9,613 and \$873, respectively as of January 1, 1993.

The weighted-average discount rate used in determining AT&T's postretirement benefit obligation under SFAS 106 at January 1, 1993 was 8.25%. The expected long-term rate of return on plan assets was 9.0%. The assumed rate of increase in the per capita cost of covered health care benefits (i.e., the health care cost trend rate) was 9.8% for 1993, decreasing gradually to 5.6% by the year 2021 and remaining level thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)  
(Dollars in Millions Except Per Share Amounts)  
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The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed trend rate by 1% in each year would raise the SFAS 106 accumulated postretirement benefit obligation for AT&T's benefit plans at January 1, 1993 by \$714, and the aggregate of the service cost and interest cost components of net postretirement benefit cost for the three months ended March 31, 1993 by \$19.

In addition to the above liability for AT&T's postretirement benefit plan costs, AT&T's unfunded liability to the Bell System Regional Holding Companies for pre-divestiture retirees was \$2,310 at January 1, 1993. This liability was recorded and immediately recognized in connection with AT&T's adoption of SFAS 106.

- (g) INCOME TAXES - Deferred tax assets and liabilities represent the amount of taxes expected to be paid or refunded in future periods as a result of differences in the book and tax bases of various other assets and liabilities. The components of deferred tax assets and liabilities as of January 1, 1993, after adoption of SFAS No. 109 and SFAS No. 106, are as follows:

	Deferred Tax Assets	Deferred Tax Liabilities
Property, plant and equipment	\$ 95	\$3,254
Business restructuring charges	831	-
Employee pensions, other post- retirement benefits and other benefits	4,318	1,031
Reserves and allowances	1,284	453
Unamortized investment tax credits	141	
Other	743	545
Total deferred taxes	\$7,412	\$5,283

- (h) AT&T CREDIT HOLDINGS, INC. - In connection with a restructuring of AT&T Capital Holdings, Inc. (formerly AT&T Capital Corporation) effective March 31, 1993, AT&T issued a direct, full and unconditional guarantee of all the outstanding public indebtedness of AT&T Credit Holdings, Inc. (formerly AT&T Credit Corporation). AT&T Credit Holdings, Inc. is a wholly owned subsidiary of AT&T Capital Holdings, Inc., which is a wholly owned subsidiary of AT&T. As a result of the restructuring, AT&T Credit Holdings, Inc. will cease filing periodic reports under the Securities Exchange Act of 1934.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

MANAGEMENT'S DISCUSSION AND ANALYSIS

AT&T's income before cumulative effects of accounting changes was \$996 million, or \$.74 per share, in the first quarter of 1993, a 12.8 percent increase from \$883 million, or \$.67 per share in the first quarter of 1992.

Effective January 1, 1993, AT&T adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109, "Accounting for Income Taxes." AT&T recognized the cumulative prior years' effects of accounting changes in the first quarter of 1993. The cumulative prior years' effect of the change in accounting for postretirement benefit expenses was a charge of \$7.023 billion, net of income tax benefits of \$4.294 billion. The cumulative prior years' effect of the change in accounting for income taxes was a gain of \$383 million. Combined, these accounting changes reduced net income by \$6.640 billion or \$4.93 per share. As a result, AT&T reported a loss of \$5.644 billion, or \$4.19 per share, for the quarter. (See also Notes (b), (f) and (g).)

The new accounting standard for postretirement benefits requires companies to accrue estimated postretirement benefit expenses during the years employees are working and earning benefits for retirement. Previously, AT&T expensed retiree health care benefits as the claims were incurred and life insurance benefits as plan assets were funded. The new accounting standard for income taxes requires companies to determine the amount of their income taxes based on the enacted tax rates for the periods when income taxes will be paid or refunds received. Some of AT&T's deferred tax accounts reflected the higher tax rates in effect in prior years. Other than the potential impact on income taxes from changes in statutory tax rates, these accounting changes are not expected to have a material effect on net income in future periods and they do not affect cash flows.

Total revenues rose to \$15.719 billion from \$15.375 billion in the year-ago quarter, primarily driven by growth in financial and long distance services and sales of network telecommunications products and microelectronic components. Operating income increased to \$1.625 billion, a 12.7 percent increase from the year-ago quarter, as total costs stayed approximately level despite the revenue growth.

The more detailed discussion that follows is based on a comparison of the three months ended March 31, 1993 with the comparable period of 1992, unless otherwise noted.

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q

..X.. QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1993

OR

..... TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1105

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

A New York  
Corporation

I.R.S. Employer  
No. 13-4924710

32 Avenue of the Americas, New York, New York 10013-2412

Telephone - Area Code 212-387-5400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ..X.. No .....

At July 31, 1993 1,347,580,000 common shares were outstanding.

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**PART I - FINANCIAL INFORMATION**  
**CONSOLIDATED STATEMENTS OF INCOME (CONT'D)**  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	1993	1992	1993	1992
Cumulative effects on prior years of changes in accounting for:				
Postretirement benefits (net of income taxes of \$4,294) (d)...	0	0	(7,023)	0
Income taxes (d).....	0	0	383	0
Cumulative effects of accounting changes.....	0	0	(6,640)	0
Net Income (Loss).....	\$1,044	\$ 961	\$(4,600)	\$ 1,844
Weighted average common shares outstanding (millions).....	1,352	1,332	1,350	1,325
Per Common Share:				
Income before cumulative effects of accounting changes.....	\$ .77	\$ .72	\$ 1.51	\$ 1.39
Cumulative effects of accounting changes.....	-	-	(4.92)	-
Net Income (Loss).....	\$ .77	\$ .72	\$(3.41)	\$ 1.39
Dividends declared per common share.....	\$ .33	\$ .33	\$ .66	\$ .66

See Notes to Consolidated Financial Statements.



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CONSOLIDATED BALANCE SHEETS (CONT'D)  
(Dollars in Millions Except Per Share Amount)  
(Unaudited)

	June 30, 1993	December 31, 1992
<b>LIABILITIES AND DEFERRED CREDITS</b>		
Accounts payable.....	\$ 4,820	\$ 5,045
Payroll and benefit-related liabilities.....	2,944	3,336
Postretirement benefit liabilities.....	560	-
Debt maturing within one year.....	8,995	7,600
Dividends payable.....	447	443
Other current liabilities.....	4,775	4,962
Total current liabilities.....	22,541	21,386
Long-term debt including capital leases (f).....	7,381	8,604
Postretirement benefit liabilities.....	7,968	-
Other liabilities.....	4,714	2,634
Deferred income taxes.....	544	4,660
Unamortized investment tax credits.....	314	350
Other deferred credits.....	197	181
Total liabilities & deferred credits....	43,659	37,815
Minority interests.....	433	452
<b>SHAREOWNERS' EQUITY</b>		
Common stock - par value \$1 per share...	1,347	1,340
Authorized shares: 2,000,000,000		
Outstanding shares:		
1,347,007,000 at June 30, 1993		
1,339,831,000 at December 31, 1992		
Additional paid-in capital.....	11,726	11,425
Guaranteed ESOP obligation.....	(382)	(407)
Foreign currency translation adjustments.....	(5)	65
Retained earnings.....	973	6,498
Total shareowners' equity.....	13,659	18,921
TOTAL LIABILITIES/SHAREOWNERS' EQUITY....	\$57,751	\$57,188

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Millions)  
(Unaudited)

APPENDIX D  
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For the Six  
Months Ended  
June 30,  
1993                      1992

<b>Operating Activities</b>		
Net income (loss).....	\$ (4,600)	\$ 1,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effects of accounting changes (d).....	6,640	-
Depreciation.....	1,776	1,757
Provision for uncollectibles.....	836	828
Provision for business restructuring..	287	39
(Increase) in accounts receivable.....	(162)	(534)
(Increase) in inventories.....	(723)	(66)
(Decrease) in accounts payable.....	(227)	(1)
Net change in other operating assets and liabilities.....	(570)	(563)
Other adjustments for non-cash items - net.....	(122)	(73)
Net cash provided by operating activities.....	3,135	3,231
<b>Investing Activities</b>		
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of \$88 and \$81...	(1,489)	(1,696)
(Increase) in finance receivables, net of lease-related repayments of \$1,910 and \$2,214.....	(1,085)	(1,481)
Net (increase) in investments.....	(560)	(33)
Acquisitions, net of cash acquired.....	(250)	(90)
Other investing activities - net.....	(132)	41
Net cash used in investing activities....	(3,516)	(3,259)
<b>Financing Activities</b>		
Proceeds from long-term debt issuance..	1,253	1,922
Retirements of long-term debt.....	(2,395)	(2,064)
Issuance of common shares.....	318	282
Treasury shares acquired.....	(1)	(2)
Dividends paid.....	(884)	(868)
Increase (decrease) in short-term borrowings - net.....	1,327	(88)
Other financing activities - net.....	20	(99)
Net cash used in financing activities....	(362)	(917)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

(d) CHANGES IN ACCOUNTING PRINCIPLES

**CHANGE IN ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS -**  
Effective January 1, 1993, AT&T adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires companies to accrue for estimated future postretirement benefit expenses during the years employees are working and earning benefits for retirement. Previously, AT&T expensed retiree health care benefits as claims were incurred and life insurance benefits as plan assets were funded.

Under the new standard, AT&T has an accumulated postretirement benefit obligation related to past service from current retirees and active employees. A portion of that liability was provided for by funding group life insurance benefits and by funding trusts for health care benefits prior to 1993.

In addition, AT&T reimburses the divested Bell System Regional Holding Companies for a portion of their costs to provide health care benefits, increases in pensions, and other postretirement benefits to pre-divestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992, these reimbursements were expensed as incurred. AT&T recognized the liability for these postretirement benefit expenses in connection with the adoption of SFAS No. 106.

AT&T elected to record a one-time charge of \$11,317 to record the unfunded portion of the accumulated postretirement benefit obligation under SFAS No. 106 and the postretirement liability related to the divested Bell System Regional Holding Companies as of January 1, 1993. The charge reflects the recognition of accumulated postretirement benefit obligations of \$12,986, net of \$1,669 of plan assets and amounts previously recorded. An after-tax charge of \$7,023 (\$5.20 per share), including \$1,375 for pre-divestiture retirees, was recorded as the cumulative effect of an accounting change in the first quarter of 1993.

Apart from this charge, the new method of accounting for postretirement benefit expenses had no material effect on net income for the six months ended June 30, 1993 and is not expected to have a material effect on net income in future periods. This accounting change does not affect cash flows.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

AT&T reported quarterly net income of \$1.044 billion, or \$.77 per share, in the second quarter of 1993, an 8.7 percent increase compared with year-ago net income of \$961 million, or \$.72 per share, in the second quarter of 1992. For the six months ended June 30, 1993, income before cumulative effects of accounting changes was \$2.040 billion, or \$1.51 per share, on total revenues of \$32.035 billion. In the comparable 1992 period, net income was \$1.844 billion, or \$1.39 per share, on total revenues of \$31.220 billion.

Effective January 1, 1993, AT&T adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109 "Accounting for Income Taxes." AT&T recognized the cumulative effects of accounting changes on prior years in the first quarter of 1993, which reduced net income by \$6.640 billion or \$4.92 per share. As a result, AT&T reported a loss of \$4.6 billion, or \$3.41 per share, for the six months of 1993, compared with income of \$1.844 billion, or \$1.39 per share in the same period in 1992. (See also Note d). Other than the potential impact on income taxes from changes in statutory tax rates, these accounting changes are not expected to have a material effect on net income in future periods and they do not affect cash flows. Effective August 1993, the federal statutory tax rate increased to 35 percent, retroactive to January 1, 1993. This increase will not materially impact 1993 net income.

Total revenues reached \$16.316 billion in the quarter, a 3.0 percent increase from \$15.845 billion in the same period of 1992. Through June, total revenues were 2.6 percent ahead of last year. For both the quarter and six months, the increase primarily resulted from strong growth in sales of products and systems, principally network systems and microelectronic products, and continuing growth in financial services and leasing revenues. Revenues from the company's long distance telecommunications services were about even with the year-ago quarter, and up slightly for the six-month period.

The net income and earnings per share figures for the quarter and first six months of 1993 include \$287 million of costs to cover specific plans for restructuring activities that were announced previously, offset by a \$217 million pre-tax gain on the sale of AT&T's remaining equity interest in a subsidiary, UNIX System Laboratories, Inc. ("USL") and other miscellaneous credits.

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q

..X.. QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1993

OR

..... TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1105

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

A New York  
Corporation

I.R.S. Employer  
No. 13-4924710

32 Avenue of the Americas, New York, New York 10013-2412

Telephone - Area Code 212-387-5400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes ..X.. No .....

At October 31, 1993 1,350,339,000 common shares were outstanding.

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PART I - FINANCIAL INFORMATION  
CONSOLIDATED STATEMENTS OF INCOME (CONT'D)  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

	For the Three Months Ended September 30, 1993		For the Nine Months Ended September 30, 1993	
		1992		1992
Cumulative effects on prior years of changes in accounting for:				
Postretirement benefits (net of income taxes of \$4,294) (f)...	-		(7,023)	-
Income taxes (f).....	-		383	-
Cumulative effects of accounting changes.....	-		(6,640)	-
Net Income (Loss) .....	\$1,073	\$ 963	\$(3,527)	\$ 2,807
Weighted average common shares outstanding (millions).....	1,355	1,336	1,351	1,329
Per Common Share:				
Income before cumulative effects of accounting changes.....	\$ .79	\$ .72	\$ 2.30	\$ 2.11
Cumulative effects of accounting changes.....	-	-	(4.91)	-
Net Income (Loss).....	\$ .79	\$ .72	\$(2.61)	\$ 2.11
Dividends declared per common share .....	\$ .33	\$ .33	\$ .99	\$ .99

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS (CONT'D)  
(Dollars in Millions Except Per Share Amount)  
(Unaudited)

	September 30, 1993	December 31, 1992	
<b>LIABILITIES AND DEFERRED CREDITS</b>			
Accounts payable.....	\$ 4,668	\$ 5,045	
Payroll and benefit-related liabilities.....	3,116	3,336	
Postretirement benefit liabilities.....	404	-	
Debt maturing within one year.....	9,926	7,600	
Dividends payable.....	447	443	
Other current liabilities.....	4,669	4,962	
Total current liabilities.....	23,230	21,386	
Long-term debt including capital leases.....	7,173	8,604	
Postretirement benefit liabilities.....	8,155	-	
Other liabilities.....	4,545	2,634	
Deferred income taxes.....	747	4,660	
Unamortized investment tax credits.....	286	350	
Other deferred credits.....	347	181	
Total liabilities & deferred credits.....	44,483	37,815	
Minority interests.....	572	452	
<b>SHAREOWNERS' EQUITY</b>			
Common stock - par value \$1 per share.....	1,350	1,340	
Authorized shares: 2,000,000,000			
Outstanding shares:			
1,350,107,000 at September 30, 1993			
1,339,631,000 at December 31, 1992			
Additional paid-in capital.....	11,891	11,425	
Guaranteed ESOP obligation.....	(355)	(407)	
Foreign currency translation adjustments.....	(11)	65	
Retained earnings.....	1,523	6,498	
Total shareowners' equity.....	14,398	18,921	
TOTAL LIABILITIES/SHAREOWNERS' EQUITY.....	\$59,453	\$57,188	

See Notes to Consolidated Financial Statements.

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AT&T Form 10-Q - Part I

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Millions)  
(Unaudited)

For the Nine  
Months Ended  
September 30,  
1993 1992

<b>Operating Activities</b>		
Net income (loss).....	\$ (3,527)	\$ 2,807
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effects of accounting changes (f).....	6,640	-
Depreciation.....	2,657	2,645
Provision for uncollectibles.....	1,196	1,316
Provision for business restructuring.....	310	39
(Increase) in accounts receivable.....	(784)	(1,213)
(Increase) in inventories.....	(905)	(112)
Increase (decrease) in accounts payable.....	(351)	80
Net change in other operating assets and liabilities.....	(359)	(201)
Other adjustments for non-cash items - net.....	(67)	46
Net cash provided by operating activities.....	4,810	5,407
<b>Investing Activities</b>		
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of \$153 and \$133.....	(2,269)	(2,688)
(Increase) in finance receivables, net of lease-related repayments of \$2,763 and \$2,748.....	(2,018)	(2,824)
Net (increase) in investments.....	(563)	(44)
Acquisitions, net of cash acquired.....	(414)	(135)
Other investing activities - net.....	(161)	49
Net cash used in investing activities.....	(5,425)	(5,642)
<b>Financing Activities</b>		
Proceeds from long-term debt issuance.....	2,058	2,913
Retirements of long-term debt.....	(3,199)	(2,994)
Issuance of common shares.....	482	429
Treasury shares acquired.....	(1)	(2)
Dividends paid.....	(1,330)	(1,307)
Increase short-term borrowings - net.....	2,069	39
Other financing activities - net.....	25	(79)
Net cash provided by (used in) financing activities.....	104	(1,001)

(CONT'D)



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

- (d) **LOSS ON SALE OF STOCK BY SUBSIDIARY** - In August 1993, AT&T Capital Corporation sold 5,750,000 shares of common stock in an initial public offering and approximately 850,000 shares of common stock in a management offering, which represents approximately 14% of the shares outstanding, thereby reducing AT&T's ownership to 86%. The shares were sold at \$21.50 per share resulting in net proceeds from the stock offerings of approximately \$115, exclusive of \$18 of recourse loans attributable to the management offering. Had the recourse loans been included in the proceeds for purposes of calculating AT&T's gain or loss on the sale, a net gain of \$6 would have been recorded. However, since the loans are excluded from the proceeds until collected over the next seven years, a loss of \$9 was recorded for the three months ended September 30, 1993.
- (e) **PROVISION FOR INCOME TAXES** - Effective August 1993, the federal statutory tax rate increased to 35 percent, retroactive to January 1, 1993. For the three months ended September 30, 1993, AT&T recognized a benefit of \$53 from adjusting existing deferred tax balances to reflect the new rate. The benefit was largely offset by the effect of the higher rate on income earned in 1993. As a result, the change in corporate income tax rates will not materially impact 1993 net income.
- (f) **CHANGES IN ACCOUNTING PRINCIPLES**

**CHANGE IN ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**- Effective January 1, 1993, AT&T adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires companies to accrue for estimated future postretirement benefit expenses during the years employees are working and earning benefits for retirement. Previously, AT&T expensed retiree health care benefits as claims were incurred and life insurance benefits as plan assets were funded.

Under the new standard, AT&T has an accumulated postretirement benefit obligation related to past service from current retirees and active employees. A portion of that liability was provided for by funding group life insurance benefits and by funding trusts for health care benefits prior to 1993.

In addition, AT&T reimburses the divested Bell System Regional Holding Companies for a portion of their costs to provide health care benefits, increases in pensions, and other postretirement benefits to pre-divestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992, these reimbursements were expensed as incurred. AT&T recognized the liability for these postretirement benefit expenses in connection with the adoption of SFAS No. 106

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

AT&T reported quarterly net income of \$1.073 billion, or \$.79 per share, in the third quarter of 1993, an 11.4 percent increase compared with year-ago net income of \$963 million, or \$.72 per share, in the third quarter of 1992. For the nine months ended September 30, 1993, income before cumulative effects of accounting changes was \$3.113 billion, or \$2.30 per share, compared with \$2.807 billion, or \$2.11 per share in the same period of 1992.

Effective January 1, 1993, AT&T adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109 "Accounting for Income Taxes." AT&T recognized the cumulative effects of accounting changes on prior years in the first quarter of 1993, which reduced net income by \$6.640 billion or \$4.91 per share. As a result, AT&T reported a loss of \$3.527 billion, or \$2.61 per share, for the nine months of 1993, compared with income of \$2.807 billion, or \$2.11 per share in the same period in 1992. (See also Note f). Other than the impact on income taxes from changes in statutory tax rates, these accounting changes are not expected to have a material effect on net income in future periods and they do not affect cash flows. Effective August 1993, the federal statutory tax rate increased to 35 percent, retroactive to January 1, 1993. The effect of the higher tax rate on income earned in 1993, resulting from this change, was more than offset by the benefit recognized by AT&T from adjusting existing deferred tax balances (see also Note e). As a result, the increase in the corporate income tax rate will not have a material impact on AT&T's net income for 1993.

Total revenues reached \$16.662 billion in the quarter, a 3.0 percent increase from \$16.180 billion in the same period of 1992. Through September, total revenues were 2.7 percent ahead of last year. For both the quarter and nine months, the increase primarily resulted from strong growth in sales of products and systems, principally network systems and microelectronic products, and continuing growth in financial services and leasing revenues. Revenues from AT&T's long distance telecommunications services were up slightly from the year-ago quarter and nine-month period.

Compared with the same periods in 1992, operating income increased 7.3 percent for the quarter and 5.6 percent for the nine months of 1993. Overall gross margin percentage increased to 39.7 percent from 36.7 percent for the quarter compared to the same period in 1992, reflecting effective cost controls coupled with revenue growth.

The more detailed discussion that follows is based on a comparison of the three and nine months ended September 30, 1993 with comparable periods of 1992, unless otherwise noted

E

**APPENDIX E**  
**AT&T CORP.**  
**POST-RETIREMENT BENEFIT PLANS**  
**(Provisions in effect on January 1, 1993)**

**AT&T CORP.**

**Benefit Provisions\***

**AT&T Corp. Plans**

- Eligibility Provisions - Post-retirement Health
- Medical Benefit Provision - Post-retirement Health
- Medical Cost Sharing Provisions - Post-retirement Health
- Dental Benefit Provisions - Post-retirement Health
- Eligibility and Benefit Provisions - Post-retirement Group Life Insurance
- Eligibility and Benefit Provisions - Post-retirement Telephone Concession Plan

**This appendix provides a summary of the benefits available to eligible retired employees and their eligible dependents under the applicable AT&T plan. More detailed information is provided in the official Plan documents. In the event there is a conflict between statements in this summary and the terms of the Plan documents, the Plan documents will control and govern the operation of the respective Plans. The Board of Directors of AT&T (Board) or its delegate reserves the right to modify, suspend, change or terminate the Plans at any time.**

**\* Provisions in effect on January 1, 1993**

**AT&T CORP.**

**Summary of Post-retirement Health Plans  
Eligibility Provisions**

**Retirement Eligibility**

<b><u>Age</u></b>		<b><u>Minimum Years of Service</u></b>	<b><u>Type of Retirement</u></b>
65	and	10	Service Pension
55	and	20	Service Pension
50	and	25	Service Pension
Any Age	and	30	Service Pension
Any Age	and	15	Disability Pension

**Dependent Eligibility**

Under the Medical Plan, there are three types of dependents who qualify for medical coverage: Class I dependents and Class II dependents and sponsored children.

**Class I Dependents include:**

- Legal spouses
- Unmarried children through the end of the year in which the child reaches age 19 (or age 23 if a full-time student), or at the end of the month in which student status is terminated if under age 23
- Unmarried children, regardless of age, who are physically or mentally handicapped and fully dependent on the retiree for financial support

**Class II Dependents** are individuals who are dependent on the retiree for support, have lived with the retiree for at least six months, and have total income including Social Security less than the stated maximum per year. This category includes unmarried children who are not Class I dependents, brothers and sisters, parents and grandparents (or a spouse's parents or grandparents) and unmarried grandchildren.

A **Sponsored Child** is an unmarried child who is not eligible for coverage as a Class I or Class II dependent. Sponsored children can receive coverage through the end of the year in which the child reaches age 23 regardless of income or residence. The retiree must pay the full cost of this coverage.

The Dental provisions cover only Class I Dependents

**AT&T CORP.****Summary of Medical Benefit Provisions****I. Plan Benefits****Type Of Expense****The Plan Pays \*****HOSPITAL CARE****Inpatient Services:**

Semiprivate room, board, and other services including intensive care and cardiac units

100% if certified by HealthCheck\*\* for up to 120 days for each separate stay for most confinements. (30 days for mental and nervous conditions, or alcohol or drug detoxification )

Private room (if hospital has only private rooms)

90% if certified by HealthCheck\*\* for up to 120 days for each separate stay for most confinements. (30 days for mental and nervous conditions, or alcohol or drug detoxification )

**Outpatient Services:**

Emergency Care

100% of the reasonable and customary charge if treatment is given for:

- Emergency first aid within 72 hours after an accident or the onset of a sudden and serious illness;
- or
- Minor surgery, diagnostic x-rays, and laboratory tests at any time

\* All categories of covered services and expenses, other than Hospital emergency room care (when services rendered are of an emergency nature) and Surgical Care, are subject to the deductible described under Other Covered Charges

\*\* 80% if not certified by HealthCheck. The difference between the actual charges and 80% of covered charges will not exceed one percent of retirees' annual pension or base pay at the end of previous year.

**AT&T CORP.**

**Summary of Medical Benefit Provisions**

**Type Of Expense**

**The Plan Pays \***

Ambulatory Surgical Facility

100% of the facility charge.

Preadmission Testing

100% of the reasonable and customary costs for x-ray and laboratory tests performed on an outpatient basis under an approved program

**ALTERNATIVES TO  
INPATIENT HOSPITAL CARE**

Home Health Care

100% of the reasonable and customary charges for most services provided by an approved home health agency, if approved by HealthCheck.

Extended Care Facility

100% of the reasonable and customary charges for most services if the care is provided immediately following a hospital confinement for the same condition and if approved by HealthCheck. Benefits for the hospital and extended care facility confinement is limited to 120 days. Each day in an extended care facility is counted as one-half day

**SURGICAL CARE**

Surgery

95% of the reasonable and customary charge. The other 5%, up to 100% of the reasonable and customary charge, will be covered under "Other Covered Charges "

100% of the reasonable and customary charge for certain procedures performed on an outpatient basis.

\* See n.\* on Appendix E, p 4 of 16.



**AT&T CORP.**

**Summary of Medical Benefit Provisions**

<b><u>Type Of Expense</u></b>	<b><u>The Plan Pays</u> *</b>
Outpatient Surgery Incentive	100% of the reasonable and customary charge for certain procedures performed on an outpatient basis.
<b><u>MEDICAL CARE</u></b>	
Diagnostic X-Rays and Lab Tests (outside the hospital)	100% of the reasonable and customary charge - subject to certain limitations
Radiation Therapy	
Chemotherapy	
Electroshock Therapy	
Administration of Anesthesia	90% of the reasonable and customary charge - subject to certain limitations. The other 10%, up to 100% of the reasonable and customary charge, will be covered under "Other Covered Charges."
In-Hospital Doctor's Visits	
In-Hospital Consultations	
Well Baby Care	
<b><u>CHEMICAL DEPENDENCY/ SUBSTANCE ABUSE REHABILITATION CARE</u></b>	100% of charges for inpatient care and 80% of charges for outpatient care if received in an approved program - up to 30 days for each separate stay. (Outpatient limit is 30 visits per calendar year.) Benefits are limited to two stays and apply only to the retiree and Class I Dependents

\* See n.\* on Appendix E, p. 4 of 16.